Delivering on investor needs in Malaysia

In a market outlook beset with uncertainty, going it alone doesn't seem the best choice Instead, asset managers and banks can better help investors if they partner to create the right investment solutions, believes Ai Mei Chan of Affin Hwang Asset Management.

In a market environment under so much stress from volatility and uncertainty, a team-based approach is always going to be effective for those asset managers and bank distributors looking to develop solutions that appeal to end-investors.

In this way, all parties can work together to create more of a need-based approach to delivering suitable investments for clients, rather than default to the more common product-pushing style. They are then more likely to withstand the market turbulence.

In a country like Malaysia, for example, where banks are such a dominant distribution channel for funds, partnerships are likely to be even more important.

“Banking channels are the main distributors of our in-house as well as externally managed products,” says Ai Mei Chan, chief marketing officer at Affin Hwang Asset Management. “IFAs, on the other hand, are still a growing segment compared with the banks, due to the size of their depositor or investor base.”

From the product providers’ perspective, leveraging on the existing sales framework, processes and customer relationships at the banks would be a more efficient way to gain market share and distribute funds, she explains.

Gaining share of distribution

By adopting this strategy, the firm has been able to establish itself as one of the top five asset managers.

And the outlook continues to be bright, given that Chan sees banks as being keen to get access to a greater range of investment solutions from third parties.

“The banks have a lot of clients for whom they want to shift more of their deposits into investment products. So they are trying to look for a middle ground between deposits and income-type funds.”

Part of the banks’ motivation for this stems from relatively poorly-performing products over the past few years due to the performance of the equity markets.

For example, explains Chan, sales of unit trusts via the banking channels have fallen away in recent months, while the volume of structured products sales remain low.

In response, banks are seeking from fund managers those products which can pay, for instance, 5% consistently over five or eight years, or that allow them to pay less initially but later step-up in line with signs of changing appetite.

Need for service

The industry in Malaysia has found itself in this position as a result of the product-pushing mentality it has had to date.

Now that the markets are challenging, the investment conversations that advisers are having with their clients becomes tougher.

But however difficult the markets are to navigate, investors' financial objectives and needs do not go away.

What advisers need to be able to do, therefore, is to provide advice and match the right products to the individual goals that their clients have, explains Chan.

This means that the focus of the conversation should be needs-based, she adds, with advisers recommending regular investing to help clients meet their own targets.

"We cannot control what happens in the market," says Chan. "But what we can control is how we approach investment plans for clients, because they still have their objectives."

This is also in line with what the regulator is striving for – to ensure there is sufficient education and retraining of sales people to be compliant with the various anti-money laundering and know-your client requirements.

"We have a learning division, and our efforts are focused on continuously training our sales team so that they have the necessary skill-set to have needs-based conversations with clients," explains Chan.

More realistic expectations

Advisers and providers in Malaysia also need to take into account that the investment expectations of many clients don't always match the outcomes of their strategies.

For example, Chan says for closed-ended fixed income portfolio investments, some distributors set a 25% cap on the high yield and nonrated bonds investments that managers can invest into for the portfolios.

However, the sorts of returns that clients are expecting would require such a cap to be increased to about 40% for high yield and non-rated bonds.

"Investors want higher returns, but distributors are not willing to take a little bit more risk," she explains, "so it is difficult for us to come up with products to meet this."

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